

HUMBOLDT COUNTY ASSESSMENT PRACTICES SURVEY

AUGUST 2003

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September 5, 2003

TO COUNTY ASSESSORS:

HUMBOLDT COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2003/060

A copy of the Humboldt County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Linda Hill, Humboldt County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Humboldt County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County Property Tax Division from July through August 2002. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

The former assessor, Mr. Raymond L. Jerland, the current assessor, Ms. Hill, and their staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that more than one-half of all property tax revenue is used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of every county assessor's office. This report reflects the BOE's findings in its current survey of the Humboldt County Assessor's Office.

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes increase the number of recommendations in the survey reports.

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, the Humboldt County Grand Jury, and the Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Linda Hill, Humboldt County Assessor, elected to file her initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor. In addition, pursuant to Revenue and Taxation Code¹ section 75.60, the BOE determines through the survey program whether the county assessment roll meets a minimum assessment level for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Humboldt County Assessor's Office included reviews of the assessor's records, interviews with the assessor and her staff, and contact with other public agencies in Humboldt County that provided information relevant to the property tax assessment program. Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by rule 371.²

This survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on the results of our research into statutory violations, under- or overassessments, or unacceptable appraisal practices that may occur in specific areas.

An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment.

¹ Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

² All rule references are to California Code of Regulations, Title 18, Public Revenues.

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

In our 1998 Humboldt County Assessment Practices Survey, we made 15 recommendations to address problems we found in the assessor's assessment policies and procedures. The assessor fully implemented eight of the recommended changes and partially implemented four. One recommendation no longer applies. Only two recommendations were not implemented.

We found significant improvements in the assessor's operations since our last assessment practices survey. A new integrated computer system has greatly improved the assessor's interface with other county departments. Additionally, the updating of hardware and software has enhanced productivity.

During the current survey, however, we identified the following problem areas:

- The assessor does not have a contract with the consulting firm that is valuing petroleum properties.
- Fire reports are not obtained from all the fire protection districts in the county. The application for disaster relief does not include all required information. Additionally, the notice for disaster relief reassessment does not address the appeal process for calamity reassessments. Finally, the assessor grants tax relief without the receipt of a complete and timely application.
- The assessor fails to enter the required remarks regarding penalties and the required notation for escaped assessment on the assessment roll.
- The assessor fails to exempt low-value parcels that are small and contiguous with larger parcels under the same ownership.
- The assessor does not enroll personal property owned by entities receiving the religious or church exemptions.
- The assessor uses a nursery supplemental schedule to the business property statement that is not prescribed by the BOE.
- The assessor's *Aircraft Property Statement* requests more information than is required by law and, thus, should not include a penalty statement.
- The public transfer list does not meet the requirements of section 408.1, subdivision (b).

- The assessor does not obtain building permits from the county's Environmental Health Division. Additionally, values for the construction of water wells and septic systems are not included in the assessment of single-family residences.
- The assessor inconsistently processes supplemental assessments on low-value new construction.
- The assessor does not deduct all applicable expenses for irrigation system improvements when valuing California Land Conservation Act (CLCA) properties. Additionally, the assessor fails to document nonliving improvements on CLCA properties.
- An incorrect Phillips Factor is used when valuing Section 11 properties.
- The assessor does not obtain California Public Utilities Commission reports filed by regulated water companies or the articles of incorporation for mutual water companies, nor does she require water companies to file a business property statement. Regulated water companies are not assessed at the lesser of market value or factored base year value.
- The assessment of sand and gravel properties does not conform to rule 469.
- The assessor continues to use unsupported minimum valuation factors when valuing business personal property.
- The assessor does not assess manufactured homes at the lesser of factored base year value or current market value.

Despite the problems noted above, we found that most properties and property types are assessed correctly. Here is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

RECOMMENDATION 1:	Use the services of an appraisal consultant only under terms of a contract that conforms to section 674.....	12
RECOMMENDATION 2:	Obtain fire reports from all fire protection districts.	14
RECOMMENDATION 3:	Revise the application for disaster relief to comply with section 170(a).....	14
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RECOMMENDATION 5:	Grant disaster relief only upon receipt of a complete and timely application.	15
RECOMMENDATION 6:	Correctly identify penalty and escape assessments on the current assessment roll.....	16

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RECOMMENDATION 14:	Enroll supplemental assessments for all qualifying new construction.....	27
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RECOMMENDATION 17:	Use the correct factor when valuing Section 11 properties.	31
RECOMMENDATION 18:	Obtain relevant assessment information to properly appraise all water company properties.....	32
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RECOMMENDATION 20:	Apply rule 469 to sand and gravel properties.....	34
RECOMMENDATION 21:	Use the percent good factors in Assessors' Handbook Section 581, <i>Equipment Index and Percent Good Factors</i> , when valuing older machinery and equipment.	38
RECOMMENDATION 22:	Assess manufactured homes at the lesser of factored base year value or current market value as required by section 5813.	40

RESULTS OF 1998 SURVEY

Disaster Relief

We recommended that the assessor: (1) regularly obtain fire reports from all fire departments within the county; (2) maintain better control of disaster relief claims; and, (3) initiate a consistent procedure for granting relief when no application is returned. In this survey, we found that the assessor has implemented more effective control of disaster relief claims. However, parts (1) and (3) of our prior recommendation have not been implemented; therefore, we repeat those parts in this report.

Change in Ownership

We recommended the assessor add the cash equivalent value of improvement bonds to the nominal sale price of properties. Due to a legislative amendment to section 110 that created a rebuttable presumption that the value attributable to improvement bonds is included in the selling price, this recommendation no longer applies.

We also recommended the assessor obtain copies of leases involving commercial properties. The assessor has implemented this recommendation.

New Construction

We recommended that the assessor: (1) include the value of water wells and septic systems in the assessment of single-family residential properties; (2) apply the appropriate depreciation rate to new additions; and (3) deduct the current assessed value of all improvements removed as a result of new construction. The assessor is now applying the appropriate depreciation rate to new additions and deducting the current assessed value of improvements removed. However, the value of water wells and septic systems is still not included in single-family residential property assessments. Thus, we repeat this part of the recommendation in this report.

California Land Conservation Act and Timberland Production Zone Properties

We recommended that the assessor revise the assessment of California Land Conservation Act (CLCA) properties by: (1) deducting an amount for return on and of the investment in irrigation systems from the total property income; and (2) deducting a charge for capital replacement of irrigation wells that contribute to the income being capitalized. Since the assessor has not implemented these recommended changes, we repeat them in this report.

We also recommended the assessor revise the assessment of CLCA and Timberland Production Zone parcels by using a nine-year term for the initial assessment after a notice of nonrenewal has been filed. The assessor has implemented this recommendation.

Taxable Government-Owned Property

We recommended that the assessor assess land subject to the provisions of article XIII, section 11, of the California Constitution at the lowest of current market value, factored base year value, or section 11 value. The assessor has implemented this recommendation.

Taxable Possessory Interests

We recommended the assessor discontinue classifying life estates as possessory interests. The assessor has implemented this recommendation.

Water Company Property

We recommended the assessor assess private water company property at the lesser of market value or the factored base year value. Water company properties are still not being valued correctly. Therefore, we repeat the recommendation in this report.

Supplemental Assessments

We recommended that the assessor notify the county auditor of possible supplemental assessments resulting from new construction. With the assessor's new Megabyte integrated computer system, this notification is automatic when the assessor processes the supplemental assessment.

Business Property Statements

We recommended that the assessor: (1) assess property based on reported costs from the annual business property statements; (2) use cost indices and percent good factors that are applicable to the current lien date; and (3) discontinue the practice of limiting the percent good factors in depreciation tables to an unsupported minimum level. The assessor has implemented the first two parts of the recommendation, but continues to use unsupported minimum levels of depreciation. Therefore, we repeat this part of the recommendation in this report.

Equipment Valuation

We recommended that the assessor assess computers by using the BOE's recommended factors. The assessor has implemented this recommendation.

We also recommended that the assessor comply with rule 461(d)³ when determining the proper appraisal unit and enroll the lower of the factored base year value or the current market value as the taxable value of each appraisal unit. The assessor has also implemented this recommendation.

³ Effective June 6, 1998, this subdivision is now rule 461(e).

Vessels

We recommended that the assessor assign a certified appraiser the responsibility of determining boat values. The assessor has implemented this recommendation.

Manufactured Housing

We recommended that the assessor: (1) classify assessable manufactured homes as personal property on the secured roll; (2) enroll the lesser of the factored base year value or the current market value as the taxable value of manufactured homes; and (3) not apply the article XIII A inflation factor to a prior year's market value estimate. The assessor has implemented parts (1) and (3) of this three-part recommendation. The assessor continues to estimate the current market value by applying the inflation factor to the base year value and enrolling the unadjusted base year value as the current market value. Thus, we repeat this part of the recommendation in this report.

OVERVIEW OF HUMBOLDT COUNTY

Humboldt County, located in the northwestern portion of the state, is the southern gateway to the Pacific Northwest. The county encompasses about 480 square miles, 80 percent of which is forestlands, protected redwoods, and recreation areas. Humboldt County is bound by the Pacific Ocean to the west, and by the counties of Del Norte to the north, Siskiyou and Trinity to the east, and Mendocino to the south. The Oregon border is 110 miles north and San Francisco is 250 miles south. The county, incorporated in 1853, derived its name from Humboldt Bay, which was officially discovered in 1849. The county has a population of 128,000 and seven incorporated cities: Arcata, Blue Lake, Eureka (the county seat), Ferndale, Fortuna, Rio Dell, and Trinidad.

For Fiscal Year 2001-02, the assessor had a staff of 35 and a budget of about \$1,585,000. The following table summarizes the change in assessed value during the past five years.

ROLL YEAR	TOTAL ROLL VALUE	INCREASE
2002-03	\$6,610,608,447	3.2%
2001-02	\$6,407,482,998	3.5%
2000-01	\$6,193,431,642	-0.3%
1999-00	\$6,210,463,002	3.9%
1998-99	\$5,978,957,894	

The next table summarizes the number of roll units and assessed values by property type for Fiscal Year 2002-03:

PROPERTY TYPE	NUMBER OF ASSESSMENTS	ENROLLED VALUE
Secured Roll		
Residential	43,327	\$3,454,984,642
Commercial/Industrial	2,669	\$890,743,079
Rural	13,467	\$1,130,508,199
Timberland Production Zone	7,047	\$412,018,598
Public Land	5,295	\$127,319
Other	1,860	\$341,130,565
Total Secured	73,665	\$6,229,512,402
Unsecured Roll		
Total Unsecured	8,520	\$381,096,045
TOTAL ASSESSMENT ROLL	82,185	\$6,610,608,447

ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, the State-County Property Tax Administration Program, appraiser certification, assessment appeals, disaster relief, assessment roll changes, low-value property exemptions, exemptions, and assessment forms.

Budget and Staffing

As displayed below, the assessor's budget has gradually increased over the last five years. The apparent leveling in Fiscal Year 2000-01 is actually due to a significant retirement payoff that occurred in Fiscal Year 1999-00. The payoff increased the Fiscal Year 1999-00 budget, consequently reflecting a decrease when compared to Fiscal Year 2000-01.

YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF	PTAP FUNDS RECEIVED*	PTAP STAFF
2001-02	\$1,585,710	3.96%	31	\$210,806	4
2000-01	\$1,525,262	-0.86%	31	\$210,806	4
1999-00	\$1,538,558	8.76%	31	\$210,806	4
1998-99	\$1,414,681	7.30%	31	\$210,806	5
1997-98	\$1,318,482		31	\$210,806	5

*State-County Property Tax Administration Program

Staffing has remained level over the same period, except for the decrease of one staff position that was funded through the State-County Property Tax Administration Program (this program is discussed in the following pages). The current staff of 35 consists of the assessor, one assistant assessor, one chief appraiser, one supervising appraiser, one supervising auditor-appraiser, one supervising assessment technician, one property transfer supervisor, 11 appraisers, three auditor-appraisers, one executive secretary, one cadastral drafting technician, two property transfer assistants, seven assessment technicians, two appraisal technicians, and one data entry operator.

State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP).⁴ This program, later redesignated as the State-County Property Tax Administration

⁴ Chapter 914, Statutes of 1995, in effect October 16, 1995.

Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration.⁵

If an eligible county elected to participate, the county and the State Department of Finance entered into a written contract (described in section 95.31). The PTAP loan was considered repaid if the county satisfied agreed-on performance criteria set forth in the contract. All contracts provided that the county agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 Fiscal Year; this requirement prevented a county from using PTAP funds to supplant the assessor's existing funding.

In most cases, verification of county performance was provided to the State Department of Finance by the participating county's auditor-controller.

Humboldt County first participated in the PTAP in Fiscal Year 1995-96 and currently is contracted to continue participation through June 30, 2003 (i.e., the end of Fiscal Year 2002-03). The county's required base funding and staffing levels for the assessor's office have been \$1,170,349 and 31 positions, respectively. The Humboldt County Auditor-Controller has certified to the State Department of Finance that the county has met the contractual requirements for loan repayment for each year under contract.

The assessor has used the annual loan amount of \$210,806 to re-establish a canvassing program for the discovery of escaped new construction, to establish and maintain a nonmandatory audit program, to maintain the low-value property ordinance level at \$2,000, to establish a formal decline-in-value review program and monitoring system, and to retain legal counsel specializing in gas fields for representation at assessment appeal hearings. Funds have also been used to purchase new office furniture, digital cameras, and new information technology (e.g., hardware, software, and related staff training). All expenditures have been designed to increase the long-term productivity of the assessor's office.

Appraiser Certification

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. There are 19 certified appraiser positions in the assessor's office, including 12 property appraisers, four auditor-appraisers, one chief appraiser, one assistant assessor, and the assessor. In addition, the assessor uses one contract appraiser (an independent contractor who provides valuation services to the assessor's office for a fee). Based on the most current BOE training and certification report, all appraisers possess the required certificates.

⁵ The Property Tax Administration Loan Program expired June 30, 2001. In 2001, the Governor approved AB 589 (Chapter 521, Statutes of 2001), establishing the Property Tax Administration Grant Program for the Fiscal Years 2002-03 through 2006-07. The new grant program will operate in essentially the same manner as the loan program except that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

Appraisal Consultant Contracts

RECOMMENDATION 1: Use the services of an appraisal consultant only under terms of a contract that conforms to section 674.

We found the assessor's contract for petroleum property appraisal services had expired and that no subsequent contract was executed.

Section 674 prescribes requirements for all contracts for the performance of appraisal work for assessors by any person who is not an employee of the state, a county, or a city. This section provides, in part, that a contract appraiser shall maintain the confidentiality of assessee information and records. A contractor may not retain information contained in, or derived from, an assessee's confidential information and records after the conclusion, termination or nonrenewal of the contract. Within 90 days of the conclusion, termination, or nonrenewal of the contract, the contractor is required to purge and return to the assessor any assessee records, whether originals or copies (hard copies or electronically stored copies), provided by the assessor or otherwise obtained from the assessee. Additionally, the contractor must provide a written declaration to the assessor that he or she has complied with this requirement.

Although contract appraisers have a statutory duty to ensure confidentiality of assessment records, the written contract puts them on notice of the requirements and reinforces the confidential nature of taxpayer information and assessment records.

We recommend that the assessor and the appraisal consultant enter into a contract that conforms to section 674.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory provisions governing the conduct and procedures of assessment appeal boards and the manner of their creation. As authorized by Government Code section 15606, the BOE has adopted rules 301 through 326 to regulate the assessment appeal process.

In Humboldt County, the assessment appeals board consists of five members who sit on a rotating basis as a three-member panel. The board usually meets once a month.

The clerk of the assessment appeals board receives and reviews assessment appeal applications and forwards copies of all applications to the assessor. Within the assessor's office, each application is reviewed by the assessor's staff and assigned to the appraiser who made the assessment. This appraiser prepares and presents the assessor's case at the hearing, if necessary. Most cases in Humboldt County have involved an appeal of a base year value.

The assessor tracks the assessment appeals workload and the resolution of appeals. On average, 126 appeals have been filed annually from 1997-98 through 2001-02.

	2001-02	2000-01	1999-00	1998-99	1997-98
Total Appeals:					
Applications Received	100	134	95	138	165
Carried Over	68	36	85	95	227
Total	168	170	180	233	392
Resolution:					
Denied-lack of appearance	3	8	5	13	34
Hearing-reduced	1	1	1	6	178
Hearing-increased	1			5	
Hearing-upheld	4	1	8	6	6
Invalid	12	43	18	16	14
Stipulation	12	29	94	52	35
Withdrawn	49	20	18	50	30
Total	82	102	144	148	297
Carried over to next year	86	68	36	85	95

Overall, the assessor's assessment appeal program is well administered. The staff are experienced, well prepared, and work well with the assessment appeals board. We found no problems with the assessor's assessment appeals program.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to assesseees whose properties have been damaged or destroyed by a misfortune or calamity. The ordinance may apply (1) to any misfortune or calamity, (2) to a major misfortune or calamity within a region that has been declared to be in a state of disaster by the Governor, or (3) to a misfortune or calamity that was caused by the suspension or restriction of the right to enter upon a possessory interest in state or federal government-owned land.

At the assessor's request, the Humboldt County Board of Supervisors adopted Ordinance 1473 to provide property tax relief for Humboldt County property owners whose homes, businesses, and other properties have been damaged in a disaster or calamity. The ordinance, adopted on June 2, 1981, has not been amended or updated.

The assessment technician who distributes disaster relief forms to taxpayers keeps a hand-written log of the forms mailed and returned. These records indicate that there were ten forms mailed in Fiscal Year 1999-00, nine in 2000-01, and 15 in 2001-02. The log also showed that eight of these forms were not returned.

Discovery

The assessor's procedures manual directs appraisers to watch for disasters or calamities when in the field. If a disaster or calamity is discovered, appraisers are directed to notify the assessment technician in charge of mailing disaster relief applications. The assessor also discovers disasters and calamities through newspaper articles and other media, building permits, information from taxpayers, information from a volunteer firefighter on the assessor's staff, and through word of mouth.

RECOMMENDATION 2: Obtain fire reports from all fire protection districts.

In our 1998 survey report, we recommended that the assessor request and review fire reports from all county fire districts on a regular basis. The assessor still does not receive fire reports from all the county's fire districts.

In an effort to obtain fire reports, the assessor met with fire department representatives and made a written request to the California Department of Forestry, Humboldt Ranger Unit. But the reports have not been forthcoming. We, however, were able to obtain fire reports from three fire districts. From these reports, we found 11 properties that suffered qualifying fire damage, but for which no disaster relief was granted.

Since many taxpayers are unaware that this form of tax relief is available to them, it is important for the assessor to be proactive in discovering damaged properties. We recommend that the assessor persist in efforts to obtain fire reports from all fire protection districts in the county.

Disaster Relief Forms

We reviewed several disaster relief claims and found that all had been signed by the claimant and properly date stamped. When reviewing disaster relief applications, the assessor does not rely solely on the claimant's estimate of damage; she also consults with insurance investigators to discover not only the actual damage but also the cause of the disaster.

RECOMMENDATION 3: Revise the application for disaster relief to comply with section 170(a).

The wording of the assessor's disaster relief application form, *Application for Calamity Reassessment* (Form AO 7003 8/6/91), does not comply with statutory requirements in several respects: (1) it does not require the applicant to indicate the condition and value of the property after the disaster or calamity; (2) the signature section of the application does not require the applicant to sign under penalty of perjury; (3) the application incorrectly states that the amount of the damage must be more than \$5,000; and (4) the application incorrectly states that it must be filed within six months of the date of damage.

Section 170(a) provides, in part, that the application for reassessment must state the condition and value of the property immediately after the damage or destruction and the dollar amount of the damage, and that the application must be executed under penalty of perjury. Additionally, based upon legislative changes to section 170(a) effective January 1, 2002, to be eligible for

relief, the amount of the damage or destruction must exceed \$10,000, and the period the application for relief may be filed is now 12 months.

The assessor's application is not in compliance with section 170 and transmits incorrect information to the taxpayer. We recommend that the assessor revise the application for disaster relief to conform to section 170(a).

RECOMMENDATION 4: Revise the notice for disaster relief reassessment to comply with section 170(c).

We also reviewed the notice sent to taxpayers as notification of reassessment due to disaster or calamity relief. The assessor uses the *Notice of Supplemental Assessment* (Form BOE-67-B). Unfortunately, this BOE-prescribed notice is not appropriate for disaster relief notification because it does not provide correct information as to the appeals process for calamity reassessments.

The reverse side of Form BOE-67-B states that an assessee has 60 days to appeal the new assessment. However, section 170(c) provides that an applicant has six months to appeal a reassessment due to tax relief for disaster or calamity.

Fortunately, few taxpayers are in need of property tax disaster relief. However, this means that the process may be unfamiliar to the taxpayer. All information provided must be clear and correct to ensure that taxpayers are able to exercise their right to apply for relief and to comply with the statutory requirements.

We recommend the assessor correct the notice of disaster relief reassessment to comply with statutory requirements.

Application Processing

RECOMMENDATION 5: Grant disaster relief only upon receipt of a complete and timely application.

In our prior survey, we found that in some cases the assessor granted disaster relief when no application was submitted and in other cases did not. We recommended that the assessor be consistent in this regard. In this survey, we found that the assessor continues to grant relief without receipt of an application.

While section 170(a) provides that a county may specify in its ordinance that the assessor has authority to initiate reassessment without an application, Humboldt County Ordinance 1473 does not include such a provision.

Humboldt County's disaster relief ordinance allows the assessor to grant tax relief only upon receipt of an application. Yet, we found several instances in which no application had been returned, but nonetheless disaster relief had been granted. There were also two cases in which applications were returned late and disaster relief had been granted.

We recommend the assessor grant disaster relief only upon receipt of a complete and timely filed application. The assessor may also seek an amendment to the county's disaster relief ordinance.

Assessment Roll Changes

The assessor must complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the roll may not be changed except as authorized by statute or by the board of supervisors. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed or was underassessed, for any reason, on the original roll. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessee.

The following table shows the number of roll changes processed in Humboldt County for the last three years. The greatest number of changes were made in Fiscal Year 2000-01, when the assessor's office converted to its new computer system.

FISCAL YEAR	ROLL CHANGES
2001-02	3,420
2000-01	6,731
1999-00	3,068

We found no issues of noncompliance with the actual changes to the assessment roll, but we discovered the omission of certain required information on the assessment roll relating to such changes.

Any roll changes must be authorized by specific statutes and the assessment roll must contain the appropriate statutory references. Rule 261 provides that when penalties are imposed under section 463, a notice on the roll is required (in one of three forms), which identifies the penalties and escape assessment. In addition, section 533 requires a notation to be included on the roll for the current assessment year.

RECOMMENDATION 6: Correctly identify penalty and escape assessments on the current assessment roll.

In Humboldt County, the current assessment roll, electronically available to the public in the assessor's office lobby, contains the amount of the escape assessment, the year of escape, and the appropriate statutory reference, but it does not include the notation required by section 533 or the penalty identification required by rule 261.

Rule 261 requires the assessor to enter section 463 penalty assessments on the local roll in one of three ways:

- (1) By adding appropriate penalties to the assessed value of each class of property to which the penalty is applicable and referencing the values to footnotes or entries in the remarks column which reads: "Includes ___% penalty or the maximum allowable dollar amount penalty added pursuant to Sec. _____, R & T Code."
- (2) By inserting the amount to be added to the assessed value of each class of property below the assessed value and identifying the penalty by an entry on the same line but in another column or other columns which reads: "Penalty added pursuant to Sec. _____, R & T Code."
- (3) By entering the amount to be added to the assessed value of each class of property in another part of the roll, together with the name and address of the assessee, the tax-rate area code, the words "Penalty added pursuant to Sec. _____, R & T Code" and a cross reference to the place on the roll at which the assessed values are entered.

Section 533 requires that the assessor enter an escaped assessment on the roll for the current assessment year. If the escape is for a prior roll, the entry on the current roll must state "Escaped assessment for year 19__ pursuant to Sections _____ of the Revenue and Taxation Code." This notation provides notice of escape assessment to the public.

We recommend that the assessor correctly identify penalties and escape assessments on the current roll as required by law.

Low-Value Property Exemption

Section 155.20 authorizes a county board of supervisors to exempt all real property with a base year value, and personal property with a full value, so low that the total taxes, special assessments, and applicable subventions on the property would be less than the assessment and collection costs if the property were not exempt.

Section 155.20(b)(1) provides that a county board of supervisors may not exempt property with a total base year value or full value of more than \$5,000, or more than \$50,000 in the case of certain possessory interests. A board of supervisors must adopt a low-value exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

On August 29, 1989, the Humboldt County Board of Supervisors adopted Resolution No. 89-131 to exempt from taxation all real property with a base year value of \$2,000 or less and all personal property with a full value of \$2,000 or less. The resolution also provides, consistent with section 155.20(c), that the low-value property exemption does not apply to the types of restricted property enumerated in section 52.⁶

⁶ Section 52 identifies property subject to specific statutory assessment procedures. These properties include open-space properties, historical properties, timberland properties, non-profit golf courses, and taxable government-owned properties.

Humboldt County's 2002-03 assessment roll contained 1,608 low-value secured items valued at \$1,590,928 and 30 unsecured items valued at \$31,985, for a total of 1,638 items with a value of \$1,662,913 (an average value per roll item of \$1,015).

RECOMMENDATION 7: Comply with Humboldt County Resolution No. 89-131 when implementing the low-value property exemption.

The assessor does not apply the low-value property exemption to parcels that are adjacent to, and under the same ownership as, a larger parcel. Additionally, the assessor's *Employee Procedure Manual* (7/02) provides that the low-value property exemption does not apply where the low-value parcel is contiguous with another parcel of the same ownership. However, Humboldt County Resolution No. 89-131 does not authorize this exception. Resolution No. 89-131 provides that all real property having a base year value of \$2,000 or less, and all personal property having a full value of \$2,000 or less, is exempt from taxation. The only exceptions cited in the resolution are (1) the types of restricted properties enumerated in section 52 and (2) new construction of \$2,000 or less (unless the new base year value of the property, including the new construction, is \$2,000 or less). By not exempting low-value contiguous parcels, the assessor is not fully implementing Resolution No. 89-131.

We recommend the assessor comply with Resolution No. 89-131 when implementing the low-value property exemption.

Exemptions

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f), of the California Constitution. This constitutional provision, implemented by section 206 of the Revenue and Taxation Code, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking also is exempt, under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1.

Article XIII, section 4(b), authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a corporation or other entity. The corporation or entity, however, must meet the following requirements: (1) it must be organized and operated for those purposes; (2) it must be non-profit; and (3) no part of its net earnings can inure to the benefit of any private shareholder or individual. The Legislature has implemented this constitutional authorization, in part, in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

County assessors, not the BOE, administer the church and religious exemptions. The church exemption and the church parking exemption require an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant. Once granted, this exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

The following table shows the assessor's religious and church exemption workload and amounts exempted for the last five years.⁷

	RELIGIOUS		CHURCH	
	Amount of Exemptions	Number of Exemptions	Amount of Exemptions	Number of Exemptions
2002-03	\$35,594,198	161	\$2,872,677	29
2001-02	\$35,551,945	165	\$2,805,882	27
2000-01	\$30,906,965	163	\$3,216,432	30
1999-00	\$28,836,131	161	\$3,178,938	31
1998-99	\$27,049,179	157	\$2,958,651	29

RECOMMENDATION 8: Assess personal property owned by all church and religious entities whether or not such property ultimately is exempted.

There are 29 properties receiving the church exemption and 161 properties receiving the religious exemption in Humboldt County. None of the properties are assessed for personal property.

The California Constitution requires that all property be assessed annually unless exempt. When property, real or personal, is exempt, the proper procedure is to first assess the property and to then apply the exemption. Not assessing personal property before exempting it results in a gross value for the assessment roll (i.e., a value before exemptions) that is understated. In addition, if the church or religious entity no longer qualifies for the exemption, or qualifies for only a partial exemption, the property's value must be reinstated on the roll, and this requires a valuation of the property.

We recommend the assessor assess all personal property owned by church and religious entities whether or not such property ultimately is exempted.

Welfare Exemption

The welfare exemption is available for property used exclusively for religious, hospital, scientific, or charitable purposes that is owned and operated by community chests, funds, foundations, or corporations organized and operating for those purposes. If the property is owned by one qualified organization and used by another qualified organization more than once per week, both organizations must file a claim for the property to receive the exemption.

⁷ Annual Statement (Forms BOE-801 and BOE-802) of the county assessor to the State Board of Equalization, per section 407, due annually on the second Monday in July.

The welfare exemption is co-administered by the BOE and county assessors, and a claim for the welfare exemption must be approved by both agencies. An annual filing of the welfare exemption claim with the assessor is required. The assessor reviews the claim and forwards a copy of it to the BOE. BOE staff review the claim further and notify the assessor of the BOE's approval or denial.

When the welfare exemption is claimed on a property for the first time, copies of the organization's articles of incorporation, tax-exempt letters, and financial statements must be submitted with the claim. The assessor reviews the claim form and the attached documents for completeness and compliance with the requirements for exemption. The assessor also performs a field inspection to verify that the information on the claim form is correct and the property is used exclusively for religious, hospital, scientific, or charitable purposes and activities. When the claim form, other required documents, and field inspection are complete, the assessor forwards a copy of those items to the BOE along with a recommendation for approval, partial approval, or total denial. Based on this, BOE staff make their determination.

An assessor cannot grant a welfare exemption that has been denied by the BOE, but may deny an exemption that was approved by the BOE. In other words, an assessor's determination of a claim can be more restrictive than the BOE's, but it cannot be less restrictive in its determination of a claim.

The following table shows the assessor's welfare exemption workload and amounts exempted for the last five years.⁸

YEAR	NO. EXEMPTIONS	ASSESSED VALUE
2002-03	284	\$185,907,810
2001-02	256	\$154,650,751
2000-01	210	\$123,675,076
1999-00	213	\$133,974,077
1998-99	210	\$122,292,520

We reviewed the files for welfare exemptions and found that the property uses were within the scope of the exemption. Where there were other users, they too, had filed claims that had been approved. Accordingly, we have no recommendations in this area.

Assessment Forms

Subdivision (d) of Government Code section 15606 requires the BOE to prescribe and enforce the use of all property tax assessment forms. The BOE currently prescribes 74 forms for use by county assessors and one form for use by assessment appeals boards. Generally, the assessor has the option to change the appearance (e.g., size and color) of a prescribed form but cannot add to,

⁸ Annual Statement (Forms BOE-801 and BOE-802) of the county assessor to the State Board of Equalization, per section 407, due annually on the second Monday in July.

change, or delete the specific language on the form. The assessor may also rearrange a form if prior approval is obtained from the BOE.

Assessors may also use locally developed forms and questionnaires. However, such forms may not be used as substitutes for the BOE-prescribed forms, and no penalty may be imposed upon a property owner for failure to file a locally developed form or questionnaire.

The BOE annually sends to assessors checklists for property statements, exemption forms, and miscellaneous forms. Assessors are to indicate on the checklists those forms that they will use in the succeeding assessment year; the checklists for property statements and miscellaneous forms must be returned by October 15 and the exemption forms checklist must be returned by December 1. By February 10, assessors are also required to submit to the BOE the final prints of all forms they will use.

The BOE's Assessment Policy and Standards Division (APSD) reports that the Humboldt County Assessor returned all three checklists for 2002 on or before the required deadlines. Rearranged forms and the final prints of all forms for 2002 were also received timely.

Also, APSD reviewed a sample of forms collected during our survey and noted a few areas that could lead to possible confusion or misunderstanding when using the forms:

- The assessor's procedures manual contains outdated versions of the forms listed in the Assessors' Handbook Section 222, *Standard Form List*. The outdated versions are of Forms BOE-261-B, BOE-261-C, and BOE 261-D.
- The assessor's *New Construction Exemption* form cites on the front that section 482 is printed on the back of the form. However, only subdivision (a) of section 482 is printed on the back. It would be more accurate to state that section 482(a) is printed on the back of the form.

RECOMMENDATION 9: Use only BOE-prescribed business property statements.

The assessor's *Nursery Schedule Supplement to Business Property Statement* should not contain the phrase "Supplement to Business Property Statement" in its title. Reference to the business property statement implies that this is a BOE-prescribed form and, therefore, that a penalty can be applied for not filing it, which is not the case. Also, the form should state that the information is being requested under section 441(d).

We recommend that the assessor use only BOE-prescribed business property statements.

RECOMMENDATION 10: Apply the section 5367 penalty only when the *Aircraft Property Statement* conforms to section 5365.

We found that the assessor's aircraft property statement does not conform to the requirements of section 5365. Section 5365 requires that the owner, upon request by the assessor of the county in which an aircraft is habitually based, to file a statement setting forth the make, model, and year of manufacture of the aircraft. Section 5367 provides that if the requested statement is not filed or not filed timely, a penalty of 10 percent of the market value of the unreported aircraft shall be

added. However, the assessor's aircraft property statement also asks for serial number, purchase information, engine and airframe time, paint and upholstery condition, and aircraft instruments. This information cannot be requested under fear of penalty, as implied on the form, and as presented, the penalty statement on the form misrepresents the law to the taxpayer. The assessor should either delete the penalty statement from her aircraft property statement or modify the statement to conform to section 5365.

We recommend the assessor apply the section 5367 penalty only when the aircraft property statement conforms to section 5365.

ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following principal elements:

- Valuation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as land subject to California Land Conservation Act contracts and taxable government-owned land.

Under article XIII A of the California Constitution, the taxable value of most real property may not exceed its full cash value as of the later of (1) the 1975 lien date or (2) the property's most recent change in ownership or completion of new construction. This ceiling on taxable value establishes the property's "base year value," which is subject to an annual inflation adjustment not to exceed 2 percent.

As of August 2002, 13 members of the assessor's staff were assigned to real property assessment: a chief appraiser, one supervising appraiser, 10 real property appraisers, and an appraisal technician. The real property staff is also responsible for the assessment of manufactured homes (this subject is addressed below; see "Assessment of Personal Property and Fixtures").

We reviewed the following real property assessment programs: change in ownership, new construction, decline in value, supplemental assessment, California Land Conservation Act property, taxable government-owned property, Timberland Production Zone property, possessory interests, water company property, and mineral property.

Change in Ownership

Section 50 requires that the assessor establish a new base year value for real property upon a change in ownership. Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from change in ownership for property tax purposes.

Document Processing

In Humboldt County, the assessor's primary means of discovering changes in ownership is through a review of deeds and other documents recorded at the county recorder's office. The recorder electronically transmits copies of all recorded documents to the assessor's drafting section and a property transfer assistant reviews and culls the recorded documents that do not correspond to changes in ownership. This initial review is typically made within one week of the date of recording. For the 2001 assessment year, 7,417 documents were reviewed to determine whether they constituted a change in ownership. This represented about a 9 percent increase over

the 2000 assessment year and a 15 percent increase over the 1999 assessment year. From 40 to 50 percent of the documents reviewed are found to constitute changes in ownership.⁹

Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in legal entities are changes in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 provides additional detail about the application of section 64.

Since there is usually no recorded notice of the transfer of an interest in a legal entity, discovery of changes in ownership resulting from such transfers is often difficult.

The BOE's LEOP unit investigates and verifies changes in control and ownership reported by legal entities and transmits to each county a listing, with corresponding property schedules, of the entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide detailed information pertaining to the counties in which they have property, assessor's parcel numbers, or the number of parcels they own. Because of the lack of reliable data provided by the entities, the BOE's LEOP unit advises assessors to thoroughly research each named entity's holdings to ensure that all affected parcels are identified and properly appraised.

The Humboldt County Assessor uses the BOE's LEOP unit's periodic listing as a tool for discovering changes in ownership of properties owned by legal entities. Upon receipt, the assessor's staff reviews the list and confirms the change in ownership of the real property involved. If necessary, the assessor requests information regarding the properties' annual income and expenses and a copy of relevant leases or summaries of lease terms. We found no problems with the assessor's LEOP program.

Section 408.1 Transfer Lists

Section 408.1 requires the assessor to maintain a list of transfers of real property that have occurred within the preceding two-year period for public inspection. The list must be divided into geographic areas and updated quarterly. For each transfer, the list must show the transferor and transferee (if available), the assessor's parcel number, the street address, the date of the transfer, the date of recording and recording reference number, and, where it is known by the assessor from nonconfidential sources, the consideration paid.

In Humboldt County, the assessor keeps a list of transfers in a binder that is available for inspection at the public counter. The list includes the date of the transfer, the assessor's parcel number, and the recording reference number. It also shows the documentary transfer tax amount, which *may* indicate the consideration paid in the transaction.

⁹ *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices.*

RECOMMENDATION 11: Maintain a public transfer list that conforms to the requirements of section 408.1(b).

The assessor's public transfer list is not divided into geographic areas, and it does not identify the transferee and transferor, the street address, or the recording date. Additionally, it is not updated quarterly.

Section 408.1(b) requires that specified information be made available to the public and that the information be kept current. Section 408.1 was enacted to assist taxpayers in obtaining meaningful sales data to review assessments and to prepare for an assessment appeal. If required information is omitted, taxpayers cannot obtain sufficient information from this list to effectively review their assessments.

We recommend that the assessor update the transfer list timely and provide all the information that is required by section 408.1.

New Construction

Section 71 requires the assessor to determine new base year values for newly constructed real property upon the date of completion and to appraise new construction in progress on the lien date at its full value and on each lien date, thereafter, until the date of completion. Practical guidelines for defining and valuing new construction are found in Property Tax Rule 463 and Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6.

Over the last five years, the assessor received an average of approximately 3,400 building permits per year. The supervising appraiser initially culls the permits for maintenance items such as reroofing, new siding, replacement of windows, or similar work that does not qualify as new construction and is excluded from reassessment. The remaining permits result in approximately 1,325 assessments of new construction each year.

Discovery

Building permits are the assessor's primary means of discovering new construction. The assessor's permit processing program is well coordinated and the procedures are well documented. There are eight permit-issuing agencies in Humboldt County. They are the county of Humboldt and the cities of Arcata, Blue Lake, Eureka, Ferndale, Fortuna, Rio Dell, and Trinidad. On a monthly basis, the assessor receives permits from these agencies. In addition, the county's Environmental Health Division issues permits for water wells.

RECOMMENDATION 12: Obtain building permits from the Environmental Health Division.

The assessor does not receive copies of agricultural or domestic well permits from the county's Environmental Health Division (EHD). Since the EHD does not send copies of well permits to the assessor, potentially assessable new construction may be escaping discovery. Although new wells are not always associated with the construction of a structure (e.g., an agricultural well), the review of well permits may lead to the discovery and assessment of new structures.

Section 72 requires county or city agencies to furnish copies of building permits to the assessor. We contacted the EHD and found that permit data is available and can be provided to the assessor. As a result of our survey, the assessor has communicated with the EHD regarding what specific data will be provided, the frequency, and the format.

To ensure that the assessor discovers all legal new construction, copies of all permits must be obtained. Well permits can indicate further development and can aid the assessor in discovering other new construction. We recommend that the assessor obtain well permits from the EHD.

Valuation

In our prior survey report, we recommended that the assessor include the value of water wells and septic systems in the assessment of single-family residential properties. The assessor has not implemented this recommendation. Therefore, we again recommend this change.

RECOMMENDATION 13: Include the value of water wells and septic systems in the assessment of single-family residences.

We found that the assessor does not add the cost of installing private wells and septic systems when estimating value via the cost approach. When estimating the value of single-family residences via the cost approach, the assessor uses the Assessors' Handbook Section 531, *Residential Building Costs* (AH 531). This cost guide states that water well and septic system costs must be added to the standard residential building unit cost factors. The residential unit cost factors published in the AH 531 include the cost of physically connecting the water and sewer hookups in an urban environment. However, the costs of wells and septic tanks are not included. Fees for private water wells and septic systems may vary by locale; this is one of the reasons the costs are not included in the standard cost factors. In conclusion, when using the AH 531, the cost of private wells and septic systems must be added separately to arrive at the total improvement cost.

We recommend the assessor include the value of wells and septic systems when assessing single-family residences not on public water and sewer systems.

Decline in Value

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its factored base year value on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its factored base year value, then the assessor must enroll the factored base year value. (Assessors' Handbook Section 501 *Basic Appraisal*, January 2002, page 140.)

In Humboldt County, the wood products industry has been in decline for many years and commercial properties, such as motels in particular, and industrial properties directly related to the wood product industry have been under decline-in-value review for several lien dates. Residential property values have also been subject to some declines. Currently, however, residential property values are rising.

There were 779 decline-in-value properties on the 2002-03 assessment roll. On each lien date, the assessor reviews these decline-in-value properties and notes this review on the assessment record. In addition, fixtures are treated as a separate appraisal unit for decline-in-value purposes. Overall, the assessor's decline-in-value program is effective and well run.

Supplemental Assessments

Sections 75 et seq. require the assessor to issue a prorated assessment (i.e., a supplemental assessment) to reflect any increase or decrease in assessed value resulting from a change in ownership or new construction. The supplemental assessment covers the portion of the fiscal year remaining after the date of change in ownership or completion of new construction.

The Humboldt County Assessor's Office recently installed a Megabyte system, which automatically processes supplemental assessments as an adjunct to the assessment roll being prepared. The system guarantees that supplemental assessments are processed in a timely manner. We did, however, identify one problem with the assessor's program for processing supplemental assessments unrelated to timely assessment processing.

RECOMMENDATION 14: Enroll supplemental assessments for all qualifying new construction.

The assessor enrolls low-value new construction in a manner that sometimes avoids supplemental assessment. The appraisal staff often decides, based on "judgment," whether to enroll a supplemental assessment for low-value new construction. In cases where an appraiser deems that no supplemental assessment should be issued, the value of the new construction is simply enrolled on the ensuing lien date.

The decision of whether to exempt low-value new construction from supplemental assessment is not at the appraiser's discretion. Section 75.10 requires the assessment of new construction as of the date of completion. It is not appropriate for the assessor to cancel a supplemental assessment unless the county has adopted an ordinance pursuant to section 75.55. As provided in section 75.55, an assessor may cancel certain low-value supplemental assessments, if an enabling ordinance has been passed by the county board of supervisors. In Humboldt County, however, the board of supervisors has not passed an ordinance implementing section 75.55, and the assessor, therefore, has no authority to cancel low-value supplemental assessments. Additionally, enrollment of supplemental assessments based upon individual judgement may lead to the unequal treatment of taxpayers.

We recommend the assessor enroll supplemental assessments for all qualifying new construction. The assessor may also seek the adoption of an ordinance to exempt low-value supplemental assessments.

California Land Conservation Act Property

Pursuant to the California Land Conservation Act (CLCA) of 1965, agricultural preserves may be established by a city or county for the purpose of identifying areas within which the city or county will enter into agricultural preserve ("Williamson Act") contracts with property owners.

Property owners in an agricultural preserve who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method based upon agricultural income-producing ability (including income derived from compatible uses, e.g., hunting rights and communications facilities). Although such lands must be assessed at the lowest of the restricted value, the current market value, or the factored base year value, the restricted value is typically the lowest.

Sections 421 through 430.5 prescribe the guidelines for assessing land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides BOE-approved guidance for the appraisal of these properties.

In Humboldt County, for the 2002 lien date, there were 195,972 acres of grazing land, consisting of 1,398 parcels, which were encumbered by 145 CLCA contracts. The acreage under CLCA contract has remained essentially level since 1997. The total taxable value of CLCA lands was \$24,796,238 for the 2002 lien date.

The assessor properly tracks the restricted, factored base year, and market values of CLCA properties for the purpose of enrolling the lowest of these three values, as required by law. In computing restricted values, the assessor uses the yield rate announced annually by the BOE. The assessor also distributes an annual questionnaire requesting income, production, and expense information pertaining to CLCA grazing lands.

Income and Expenses—CLCA Properties

In general, with land subject to a CLCA contract, the income to be capitalized is the economic net income ("net return") attributable to the land based on agricultural use. To determine net income, the appraiser must estimate the future gross income ("gross return") that the land is expected to produce and subtract the allowable cash expenses (except property taxes) ("net outgo") necessary to maintain this income. The gross income is primarily from agricultural use. However, it may also include income from compatible uses actually occurring, such as oil or gas exploration rights, communication facility sites, and recreational uses such as hunting or fishing. There is no legal limit upon the income to be capitalized unless the CLCA contract contains a provision establishing a minimum annual income per acre. Rental income is preferable to operating income when estimating the income to be capitalized.

The type of expenses deducted, and to some extent their amounts, depends upon the composition of the gross income. For example, a gross economic income derived from cash rents will generally require fewer adjustments than a gross income derived from share rents; and, while a management charge is generally applicable to both income streams, this charge will normally be less in cash rental analysis. In addition to the expenses that are incurred for the creation and maintenance of the income, the property owner is entitled to a fair return on and of the improvements that are necessary to produce the income.

In our 1998 survey, we noted that the assessor did not deduct from the total property income a charge for the return on and of the investment in irrigation systems. Similarly, we noted that the

assessor did not deduct a charge for capital replacement of irrigation wells that contribute to the income being capitalized. We found that, while both of these deficiencies continue to occur, the assessor's new Megabyte computer system is ready to accommodate the deduction of charges for both (1) the return on and of irrigation system improvements and (2) the capital replacement of irrigation wells in future assessment years.

RECOMMENDATION 15: Deduct all applicable expenses for irrigation system improvements in the valuation of CLCA properties.

The assessor continues to omit expenses for irrigation system improvements when estimating the income to be capitalized. Applicable expenses include amounts for the return on and the return of the investment in irrigation systems and the return of irrigation wells. Income from irrigated land that is serviced by a permanently-installed irrigation system includes income attributable to the irrigation system. Nonliving improvements that are not subject to the CLCA contract, such as irrigation systems, are assessed separately from the property that is subject to the CLCA contract. Because these separately assessed unrestricted irrigation systems contribute to the land income that is capitalized into a CLCA land value, an amount for return on and of the investment in these irrigation systems must be deducted from the income stream. This procedure is explained in Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521). If these adjustments are not made, the CLCA land value will include value attributable to separately assessed property.

Irrigation wells may be the sole source of agricultural water or may be used for supplemental water. They are classified as land for property tax purposes and a return on the investment in wells is included in the land income. Nonetheless, wells also are a wasting asset and a charge for replacement ("return of") must be subtracted from the land income.

Although the assessor had not implemented our prior recommendation regarding the proper deductions for irrigation systems for the 2002 assessment year, the assessor provided documentation showing that the new Megabyte system is designed to accommodate such deductions for future assessment years. We encourage the assessor to implement the corrections as planned.

We recommend the assessor deduct all applicable expenses for irrigation system improvements when valuing CLCA properties.

Documentation of Wells and Other Irrigation System Improvements

The documentation of irrigation system improvements is an integral part of the valuation process for CLCA properties.

RECOMMENDATION 16: Inventory nonliving improvements on CLCA properties.

The assessor has not actively collected information about the presence of wells or other irrigation improvements. Instead, she has relied upon assessee to report this information on the business property statement.

We acknowledge that a county-wide inventory of irrigation system improvements on CLCA lands probably should not be among the Humboldt County Assessor's urgent priorities. Nevertheless, without such information, the assessor cannot make the proper deductions for irrigation expenses as described in the above recommendation. The assessor concurs in this point and plans to collect this information in future years. We encourage the assessor to begin collecting this information.

We recommend that the assessor conduct an inventory of nonliving improvements, such as irrigation systems and wells, which are, or may be, located on CLCA properties.

Capitalization Rates

Section 423(b) provides very specific guidance concerning the composition of the capitalization rate to be used in determining CLCA-restricted land values. It requires that the capitalization rate be the sum of the following components:

- An interest component annually provided by the BOE;
- A risk component based on the location and characteristics of the land, the crops grown thereon, and the provisions of any lease or rental agreement to which the land is subject;
- A component for property taxes; and
- A component for amortization of any investment in perennials over their estimated economic life when the total income from land and perennials (other than timber) exceeds the yield from other typical crops grown in the area.

In Humboldt County, all land under CLCA contract is used for grazing. When developing a CLCA capitalization rate, the assessor uses a risk rate component of 1 percent for such grazing lands.

Taxable Government-Owned Property

Article XIII, section 3, of the California Constitution exempts from property taxation any property owned by local governments, except as provided in article XIII, section 11. Section 11 provides that land, and improvements thereon, located outside a local government's or local government agency's boundaries are taxable if the property was taxable at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable. These lands and taxable improvements are commonly referred to as "Section 11 properties."

Humboldt County's 2002 assessment roll contains 30 Section 11 properties, the same number in our 1998 survey. Further, no new Section 11 properties have been enrolled since our previous survey, and no Section 11 properties have been deleted from the roll. The total taxable value of the county's Section 11 properties is approximately \$48,800.

In our 1998 survey report, we recommended that the assessor comply with article XIII, section 11, of the California Constitution by assessing Section 11 land at the lowest of current market value, article XIII A factored base year value, or restricted value determined pursuant to section 11 (Section 11 value). The assessor now compares a property's Section 11 value and factored base year value for each lien date, and reviews its market value every few years. (In Humboldt County, market value has consistently been higher than either the Section 11 value or the factored base year value.) We commend the assessor for implementing our recommendation.

We found that the assessor's discovery program for Section 11 properties is effective and that base year values have been correctly established. In general, the assessor appears to be correctly assessing Section 11 properties; we did, however, identify one exception.

RECOMMENDATION 17: Use the correct factor when valuing Section 11 properties.

Of the 30 Section 11 properties enrolled, only 7 are correctly factored (by multiplying the appropriate 1967 assessed value by the factor prescribed in section 11). The assessor incorrectly factors the remaining 23 (by applying the 1966 assessed value by the factor prescribed in section 11). The assessor contends that the choice of factor is irrelevant since the Section 11 value, regardless of which factor is used, is greater than the factored base year value, and therefore would not be enrolled anyway.

LTA 2000/037 provides that Section 11 land located outside of Inyo and Mono counties must be assessed at the lowest of either (1) the current fair market value, (2) the factored base year value, or (3) the 1967 assessed value multiplied by the appropriate factor prescribed in section 11.

Historically, Section 11 values have been higher than the factored base year values for the 30 Section 11 properties in Humboldt County. However, it is possible that the factored base year values or even market values could exceed the Section 11 values in the future. The assessor is not making a valid value comparison when the wrong factor is used. If the Section 11 values had been the lowest of the three compared values, there would have been overassessments on 23 of the 30 properties.

We recommend the assessor use the correct factors for the valuation of Section 11 properties.

Timberland Production Zone Property

Lands zoned "Timberland Production Zone" (TPZ) are valued in accordance with special TPZ site classifications; the valuation of such lands excludes the value of any standing timber. The annual value of a TPZ property must be its appropriate per-acre site value (see section 434.5) plus the current market value of any compatible, nonexclusive uses of the property (see section 435).

The special valuation methods for TPZ lands do not apply to structures on the lands or to reasonable site values for such structures. In other words, structures and supporting lands are assessed as all other real property.

Humboldt County has approximately 8,400 parcels, consisting of approximately 994,000 acres, under TPZ zoning. For the 2002-03 assessment year, the total assessed value of TPZ lands in Humboldt County was \$164,352,947. Our review of randomly-selected records showed that the assessor properly follows the BOE's schedule of per-acre values for different site classes of TPZ land. The assessor also correctly calculates the values of TPZ parcels that are being removed from such zoning. We have no recommendations concerning the assessment of TPZ lands.

Taxable Possessory Interests

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly-owned property is based on the value of the rights held by the possessor.

To discover taxable possessory interests, the Humboldt County Assessor contacts 47 government agencies annually for a summary of possessory interest activity. Additionally, the assessor's staff periodically reviews recorded leases and agreements. Data from these sources are combined with information gleaned from field inspections to determine if taxable possessory interests exist. On lien date 2002, there were 719 possessory interests in Humboldt County with a roll value of \$23,573,758.

Water Company Property

Taxable water company property may include the property of private water companies, mutual water companies, and some property of government-owned water systems. Each type of water company property presents different assessment issues.

In Humboldt County, there are both private water companies regulated by the California Public Utilities Commission (CPUC) and mutual water companies. From listings of water companies obtained from the California Department of Health Services, Division of Drinking Water and Environmental Management, and the CPUC, we reviewed the county's mutual and private water companies assessments. We found several problems, which are discussed below.

Discovery

RECOMMENDATION 18: Obtain relevant assessment information to properly appraise all water company properties.

The assessor does not regularly receive the annual water company reports available from the CPUC. These reports contain the data necessary for developing indicators of value from the income and historical cost less depreciation (HCLD) approaches. The HCLD approach is a generally accepted method for valuing rate-base-regulated utilities. The approach uses accounting information (as prescribed by the agency regulating that utility) to compute a value indicator. When regulation effectively limits the income of a company to that derived from the rates it charges for water, HCLD approximates market value. As stated in rule 3(d), the HCLD

approach is applicable "if the income from the property is regulated by law and the regulatory agency uses historical cost or historical cost less depreciation as a rate base."

In addition, the assessor sends a business property statement to only one water company. To help ensure that all assessable property is being discovered, the assessor should request that all water companies in the county file a property statement. We acknowledge that prior to completion of our survey, steps were taken to add water companies to the computerized list of entities that receive annual Form BOE-571-L statements.

Finally, the assessor's files did not contain the articles of incorporation of mutual water companies. In order to assess the real and personal property of mutual water companies correctly, the assessor must review the articles of incorporation. Without the articles of incorporation, the assessor cannot properly identify the legal ownership of the company, and without accurate ownership information the assessor cannot ensure that the mutual water companies' properties are correctly assessed, such that the value of these companies are appropriately reflected in the value of each of the properties served.

We recommend that the assessor obtain the relevant assessment information to properly appraise water company properties.

Regulated Water Companies

In our 1998 survey report, we recommended that the assessor assess the property of private water companies at the lower of current market value or factored base year value. The assessor concurred with our recommendation in his written response to the 1998 survey recommendations. However, based on interviews with the assessor's staff and a review of pertinent records, it is evident that this prior recommendation has not been implemented.

RECOMMENDATION 19: Assess regulated private water company real property at the lesser of current market value or factored base year value.

The assessor enrolls the factored base year value of the real property owned by regulated private water companies, adjusted for additions or deletions after the base year. The property should be assessed at the lower of current market value or factored base year value.

The CPUC regulates the rates charged by private water companies and the profits of such companies are limited to a return based on the companies' outstanding investment. The current market value of this type of property is thus directly related to the regulated rates and the current market value may be less than its factored base year value. This makes it necessary to annually determine the water company's taxable value as of the lien date. Section 51 requires the assessor to enroll the lesser of a property's factored base year value or its current market value. The assessor's practice of omitting this value comparison may lead to overassessments. In order to properly assess this type of property, the assessor must estimate its market value on each lien date, compare this value with the property's base year value, and enroll the lower of these two values.

We recommend the assessor assess regulated private water company property at the lesser of market value or factored base year value.

Mineral Property

Rule 469(b) provides that the rights to enter upon land for the purpose of exploration, development, or production of mineral are "taxable real property interests to the extent they individually or collectively have ascertainable value." Each subdivision of the rule thereafter specifically sets forth appraisable interests and how a mine reaches the point of producing income.

In adopting rule 469, the BOE determined that

"...due to the unique nature of mineral interests and the requirements of Article XIII A, ...the assessor must select the one point in time when the mineral right will be valued by reference to proved reserves. Once the base year value is established, it cannot be increased except as permitted under Proposition 13."

Humboldt County has several natural gas leases, sand and gravel properties, and a small number of unpatented mining claims. A mineral consultant appraises the natural gas leases. The assessor appraises the other mineral properties.

Petroleum Properties

There is one gas field with several productive zones located in Humboldt County. A mineral consultant hired by the county appraises this property. In recent years, there has been a minimal exchange of information between the assessor and the taxpayer in regards to this property, even though the assessor has attempted to obtain more information. The assessor's consultant appraises the wells based upon only the information in his possession, as allowed by section 501. The assessor should continue to pursue the additional information her consultant needs to accurately appraise these natural gas wells.

Sand and Gravel Properties

There are several sand and gravel properties located in Humboldt County. The appraisal program for these properties needs a substantial review.

RECOMMENDATION 20: Apply rule 469 to sand and gravel properties.

Mineral properties are currently enrolled at factored base year value. Absent a change in ownership, no effort is made to determine the current market value of these properties. Additionally, no adjustments are made for the depletion of reserves or the addition of new reserves pertaining to the properties.

Mineral properties are difficult to appraise due to the sporadic nature of production. Some properties may produce every other year or every third year, based on the demand from construction projects in the area. Many of the properties are streambed extractions that flood

each year and thus renew the reserves. Annual reviews are necessary for tracking production and for determining adjustments to reflect the addition of new reserves.

The use of a moving average of production is one method that can be used to help in the appraisal of mineral properties. Using a three- or five-year moving average of past production as a forecast of future extraction is an acceptable appraisal practice. This forecast can then be used in a discounted cash flow analysis to determine the value of the property. Further details on how to apply rule 469 to mineral properties can be found in Assessors' Handbook Section 560, *Assessment of Mining Properties*.

We recommend the assessor apply rule 469 to the appraisal of sand and gravel properties.

Unpatented Mining Claims

The unpatented mining claims are reviewed and enrolled at \$40 per acre. The county's low-value ordinance exempts many of the claims from the assessment roll. While the assessor should periodically review the valuation method applied to unpatented mining claims, the procedures and method used are similar to those used in other counties and we find no problems with this procedure.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor's program for assessing personal property and fixtures includes the following major elements:

- Discovery and classification of taxable personal property and fixtures.
- Mailing and processing of annual property statements and questionnaires.
- Annual valuation of taxable personal property and fixtures.
- Auditing taxpayers whose assessments are based on information provided in property statements.

As of September 2002, the assessor's staff assigned to the business property program consisted of seven positions: one supervising auditor-appraiser, three auditor-appraisers, one personal property appraiser, and two assessment technicians.

The following table shows the business property workload and roll amounts for the last three years.

UNSECURED ASSESSMENT ROLL	2002-03	2001-02	2000-01
Vessels	3,655	3,913	5,393
General Aircraft	117	129	138
Property Statements	5,495	5,436	5,518
Mandatory Audits	46	39	44
Total Roll Value	\$381,096,045	\$407,368,131	\$371,470,085

In the following sections of the survey report, we review Humboldt County's audit program, property statement processing, valuation of business personal property (including computers, apartment personal property, and service station property), and assessment of manufactured homes, aircraft, and vessels.

Audit Program

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

The following table shows the total number of audits completed, and the resulting net value changes, over the last five years for Humboldt County. The decrease in total audits is due to staff turnover (in the earlier years of the time period), conversion to Megabyte in 2000, and the statutory increase in the mandatory audit threshold from \$300,000 to \$400,000 effective January

2001. The total number of mandatory audits is about 200, and the backlog of mandatory audits has remained small, averaging less than four per year.

ASSESSMENT ROLL	TOTAL AUDITS	MANDATORY AUDITS	NONMANDATORY AUDITS	NET VALUE CHANGE
2002-03	82	35	47	\$8,363,135
2001-02	79	39	40	\$6,980,281
2000-01	117	61	56	\$11,766,267
1999-00	135	67	68	\$22,095,159
1998-99	131	67	64	\$14,549,750

While our 1998 survey report did not contain any recommendations for the audit program, it did have some suggestions for enhancing the assessor's audit program. All of those suggestions have been implemented. We again have no recommendations in regard to the audit program.

Business Property Statement Program

Section 441 requires each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more to annually file a business property statement with the assessor; other persons must file a property statement if requested by the assessor. Property statements form the backbone of the business property assessment program. Several variants of the property statement address a variety of property types, including commercial, industrial, and agricultural property, vessels, and certificated aircraft.

In our 1998 survey report, we made one recommendation concerning property statement processing. The assessor has partially implemented that recommendation. We repeat the unimplemented part in this report (see "Business Equipment Valuation," below).

For the 2002-03 roll, a total of 5,495 business property statements were processed in Humboldt County. The following table summarizes this activity.

TYPE	NUMBER	SECURED	UNSECURED
General Business	4,437	1,324	3,113
Agricultural	507	348	159
Apartments	110	110	0
Financial	60	22	38
Leased Equipment	284	1	283
Service Stations	97	54	43
Total	5,495	1,859	3,636

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

Assessors value most machinery and equipment using business property value factors. Value factors are derived by combining price index factors (trend factors) with percent good factors. A value indicator is obtained by multiplying a property's historical (acquisition) cost by appropriate value factors.

Section 401.5 provides that the BOE shall issue information that promotes uniformity in appraisal practices and assessed values. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

The Humboldt County Assessor has adopted the price indices (trend factors) and percent good factors recommended by the California Assessors' Association (CAA). These price indices parallel those in AH 581, and except for older equipment, the percent good factors also parallel the AH 581 factors.

RECOMMENDATION 21: Use the percent good factors in Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, when valuing older machinery and equipment.

In our 1998 survey report, we recommended that the assessor discontinue the practice of limiting the percent good in depreciation tables to an unsupported minimum percentage. The assessor is still using minimum percent good factors.

The percent good factors in AH 581 are based on the assumption that as business equipment ages, it gradually loses its ability to earn an economic return for its owner. In some cases, equipment wears out physically, to the point where it is not economic to repair it. In other cases, the equipment may be fine physically but new technology, a changing market relative to the type of equipment, and other factors make the equipment uneconomic.

Some equipment, when no longer economic to operate, may have a positive salvage value, whereas other equipment may have a negative value at the end of its useful life due to the cost of disposal. The AH 581 factors assume that, on average, equipment will have a zero value when

retired. For commercial and industrial equipment, the factors decline from 100 percent good when acquired to 1 percent good (99 percent depreciated) for equipment that has survived long past the average service life of similar equipment but is still in use.

As noted above, the CAA tables used by the assessor follow the AH 581 percent good factors except that they use unsupported minimum percent good factors for older equipment. This means that very old equipment that is about to be retired is valued as though it had several years of economic service remaining.

Some older equipment may be worth more than 1 percent of replacement cost new (as estimated in the AH 581 tables), just as some newer equipment may be worth less than the percent good suggested by AH 581. When making appraisals of individual items of equipment, the assessor may use sales data, income data, or other available evidence to estimate fair market value. However, when using a mass appraisal tool such as the AH 581 tables, it is important to use the tables as presented.¹⁰ Use of unsupported minimum percent good factors may value some equipment correctly but will substantially overvalue most older equipment. Accordingly, we recommend the assessor use the factors in AH 581, not the modified CAA factors. The AH 581 factors should be used as intended.

Computer Valuation

Also pursuant to section 401.5, the BOE issues valuation factors for computer equipment (see AH 581, "Table 6: Computer Valuation Factors").

The Humboldt County Assessor values computers using the BOE-recommended factors.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code sections 18007 and 18008 and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Most manufactured homes are classified as personal property and enrolled on the secured roll.

The Humboldt County Assessor enrolled 2,628 manufactured homes on the 2002-03 assessment roll, valued at \$167,090,558; and 2,678 manufactured homes on the 2001-02 roll, valued at \$157,991,201. For the 2002-03 roll, 1,353 assessed manufactured homes were situated in the county's 99 mobilehome parks, 1,167 manufactured homes were located on fee land; and 108 homes were located on leased land not in a rental park. All manufactured homes are enrolled on the secured roll and are correctly classified as personal property.

¹⁰ Beginning with the 2003 lien date, assessors are prohibited from employing minimum percent-good factors that are determined in an unsupported manner (AB 2714, Ch. 299, Stats. 2002, added section 401.16 to the Revenue and Taxation Code).

The manufactured home assessment program is generally well administered. Records are readily available and are up to date. However, we identified one area for improvement.

RECOMMENDATION 22: Assess manufactured homes at the lesser of factored base year value or current market value as required by section 5813.

Section 5813 requires that manufactured homes be assessed at the lesser of the factored base year value or current market value. It is not unusual for manufactured homes to decline in value, particularly those located in older mobilehome parks.

The assessor is inconsistent in her treatment of manufactured homes in regard to declines in value. Except for taxpayers who request a review of their manufactured home assessments, the assessor attempts to estimate the current market value each year (i.e., recognize a decline in value) simply by not adjusting the base year value by the annual inflation factor. Though not required to reappraise all properties each year, the assessor should be proactive in trying to discover properties that have declined in value. The assessor's method of adjustment is expedient, but it can result in incorrect assessments and inconsistent treatment of taxpayers.

The assessor should develop a program to ensure that declines in value of manufactured homes are recognized accurately and consistently. For example, the assessor might conduct periodic reviews, by mobile home park, of assessed values vis-à-vis market values.

We recommend that manufactured homes be assessed at the lesser of factored base year value or current market value.

Aircraft

General Aircraft

General aircraft are privately-owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis (general aircraft contrast with certificated aircraft, discussed below). Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference* as an alternative guide for aircraft not listed in the *Bluebook*.

The Humboldt County Assessor assessed 117 general aircraft for the 2002-03 assessment roll for a total taxable value of about \$11 million.

The assessor does a commendable job of discovering aircraft, using listings from the Federal Aviation Agency (FAA) and the airport manager's *List of Aircraft* (BOE Form AH 577-B). The assessor also receives referrals about aircraft from other counties.

The assessor uses computer software as an aid in assessing aircraft. The program used, *Software for the Aircraft Bluebook*, has been a very effective tool. The (on-line) program requires the

input of data about the model of aircraft, particular features of the subject aircraft, and the subject's condition. The program then estimates retail and wholesale values for the subject. A related worksheet also can be printed or saved electronically.

Certificated Aircraft

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed at a rate of 100 percent at the place where they are "habitually situated," the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and the number of arrivals and departures during a representative period (the period is designated by the BOE). Certificated aircraft are assessed in accordance with the methods described in section 401.15.

The Humboldt County Assessor correctly assesses the aircraft of the two commercial airline companies that service Humboldt County. The aircraft are assessed using the appropriate allocation formula in section 1152. That formula requires the airlines to report flight and ground time and arrivals and departures, and the information is routinely included in the assessor's airline audits. The assessor does a thorough job in assessing commercial aircraft; the assessments are in accordance with applicable law. We have no recommendations in this area.

Historical Aircraft

Aircraft of historical significance can be exempted from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as (1) an aircraft that is an original, restored, or replica of a heavier than air, powered aircraft 35 years or older; or (2) any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

The historical aircraft exemption is not automatic. Each year, the owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, paying a filing fee of thirty-five dollars (\$35) upon the initial application for exemption. Along with these requirements, aircraft of historical significance are exempt only if the following conditions are met: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale; (2) the assessee does not use the aircraft for commercial purposes or general transportation; and, (3) the aircraft was available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.

There are five historical aircraft in Humboldt County. The assessor has received all the affidavits for the exemption of these aircraft on or before the statutory deadline each year; there has never been an instance of a taxpayer filing after February 15. The assessor also verifies that the public-display requirement is met and collects the one-time \$35 application fee with the initial filing.

The assessor continues to do a good job of administering the historical aircraft exemption; we have no recommendations in this area.

Vessels

Assessors must annually appraise all vessels at market value. The following table shows the assessor's vessel data for the last five years.

YEAR	PLEASURE VESSELS		DOCUMENTED VESSELS	
	NUMBER	ASSESSED VALUE	NUMBER	ASSESSED VALUE
2001-02	3,758	\$20,694,604	155	\$669,968
2000-01	5,173	\$17,827,271	165	\$651,563
1999-00	5,126	\$19,913,898	158	\$488,985
1998-99	4,665	\$21,021,376	188	\$560,550
1997-98	4,474	\$16,802,139	150	\$545,420

The Humboldt County Assessor continues to have an effective discovery program for vessels. Vessels are tracked through reports from the Department of Motor Vehicles (DMV) and referrals from other counties. Additionally, the U. S. Coast Guard annually sends a list to the assessor of all vessels known to it. Both the Humboldt Bay Harbor District and the Eureka Public Marina annually send a statement that identifies the boats within their respective jurisdictions.

The assessor values vessels at market value each year with the aid of two value guides: the *ABOS New Boat & Motor Price Guide Blue Book* and the *BUC Used Boat Price Guide*. The assessor correctly adds sales tax when estimating the value of vessels. The assessor exempts low-value vessels if the market value is \$2,000 or less as authorized by the county's low-value exemption resolution.

We have no recommendations regarding the assessment of vessels.

APPENDICES

A: County Property Tax Division Survey Group

Humboldt County

Chief, County Property Tax Division:

Mickie Stuckey

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Arnold Fong

Supervising Property Appraiser

Survey Team Leader:

Sally Boeck

Senior Specialist Property Appraiser

Survey Team:

Mark Nisson

Senior Specialist Property Appraiser

James McCarthy

Senior Petroleum & Mining Engineer

Ken King

Associate Property Appraiser

Mike Shannon

Associate Property Auditor Appraiser

Kim Trotto

Associate Property Appraiser

Marilyn Jones

Tax Technician II

B: Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of Records; Appraisal Data Not Public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

(a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.

(b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.

(c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

(d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

(a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the

assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.

(c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code**75.60. Allocation for administration.**

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
- (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
- (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
- (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment

operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
- (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

(b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
- (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
- (8) Discovering and assessing property that has suffered a decline in value.
- (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.

(c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Under section 15645 of the Government Code, an assessor may file a response to the findings and recommendation contained in the BOE's survey report. The survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

The Humboldt County Assessor's response begins on the next page. The BOE has no comments to the assessor's response.



LINDA A. HILL
ASSESSOR

COUNTY OF HUMBOLDT

825 Fifth Street, Room 300 ~ Eureka California 95501-1153
Phone 707-445-7276 FAX 707-445-7410

July 2, 2003

Ms. Mickie Stuckey, Chief
County Property Tax Division
State Board of Equalization
P. O. Box 942879
Sacramento, California 94279-0062

Dear Ms. Stuckey:

Enclosed is my response to the recommendations in the recent Assessment Practices Survey of Humboldt County conducted by the Board of Equalization. Please include it in the final report.

Your staff is to be commended for the professional and courteous manner in which they conducted the review. We appreciated their efforts to avoid disruption of the ongoing operations of this office.

The survey is a valuable tool that will aid us as we work to ensure that property taxes are properly and efficiently administered. As you will see from the response, we agree with many of the recommendations. We have already implemented some; others will be implemented as time and resources allow.

I wish to thank the staff of the Humboldt County Assessor's Office for the professional manner in which they conduct the business of this office. The overall good report was due to their hard work and dedication. I also applaud their achievement of excellent service to the public.

Sincerely,

/s/ Linda A. Hill

Linda A. Hill
Assessor

HUMBOLDT COUNTY RESPONSE
ASSESSMENT PRACTICES SURVEY
JULY 2003

- RECOMMENDATION 1: Use the services of an appraisal consultant only under terms of a contract that conforms to section 674.
- RESPONSE: We concur and have begun implementation of this recommendation for the next calendar year.
- RECOMMENDATION 2: Obtain fire reports from all fire protection districts.
- RESPONSE: We concur. As noted in the body of the report, we have met with fire officials and made written request to the California Department of Forestry in the past in order to comply with this recommendation. We will renew our efforts to obtain fire reports from all fire protection agencies.
- RECOMMENDATION 3: Revise the application for disaster relief to comply with section 170(a).
- RESPONSE: We concur and will comply.
- RECOMMENDATION 4: Revise the notice for disaster relief reassessment to comply with section 170(c).
- RESPONSE: We concur and will comply.
- RECOMMENDATION 5: Grant disaster relief only upon receipt of a complete and timely application.
- RESPONSE: We do not grant disaster relief without a timely application. However, where a total loss has occurred, we do remove the value of the improvement from the assessment roll.
- RECOMMENDATION 6: Correctly identify penalty and escape assessments on the current assessment roll.
- RESPONSE: We concur, however, our computer system does not provide for this notation.
- RECOMMENDATION 7: Comply with Humboldt County Resolution No. 89-131 when implementing the low-value property exemption.
- RESPONSE: We concur and will comply.

RECOMMENDATION 8: Assess personal property owned by all church and religious entities whether or not such property ultimately is exempted.

RESPONSE: We concur and will comply.

RECOMMENDATION 9: Use only BOE-prescribed business property statements.

RESPONSE: We concur and will comply.

RECOMMENDATION 10: Apply the section 5367 penalty only when the *Aircraft Property Statement* conforms to section 5365.

RESPONSE: We concur and will comply.

RECOMMENDATION 11: Maintain a public transfer list that conforms to the requirements of section 408.1(b).

RESPONSE: We concur and will comply. In prior years when the list was available there was little or no interest shown in it by the public. We do have the report available in electronic format. We will print this approximately 1400-page report and have it available at the public counter.

RECOMMENDATION 12: Obtain building permits from the Environmental Health Division.

RESPONSE: We attempted to obtain these permits prior to the survey team's review. We found that the information was not as readily available as indicated in this report. We will continue in our efforts to obtain the permits.

RECOMMENDATION 13: Include the value of water wells and septic systems in the assessment of single-family residences.

RESPONSE: City water/sewer hookup costs are included in standard costs. Reviews have indicated that very little value difference exists between these city water/sewer hookups and well/septic system costs. Value questions as to what additional costs should be added to the cost approach are left to the individual appraisers. The appraisers are aware of local costs and are competent to make adjustments where appropriate.

RECOMMENDATION 14: Enroll supplemental assessments for all qualifying new construction.

RESPONSE: We concur and have begun enrolling supplemental assessments on all qualifying new construction. We will continue to enroll these assessments until the Board of Supervisors passes the appropriate ordinance.

RECOMMENDATION 15: Deduct all applicable expenses for irrigation system improvements in the valuation of CLCA properties.

RESPONSE: We concur and will implement.

RECOMMENDATION 16: Inventory nonliving improvements on CLCA property.

RESPONSE: We concur and began such an inventory process prior to the beginning of the survey.

RECOMMENDATION 17: Use the correct factor when valuing Section 11 properties.

RESPONSE: We concur and will comply. We conducted a value review of prior years to ensure that proper values were enrolled. Said value review showed that no improper values were enrolled.

RECOMMENDATION 18: Obtain relevant assessment information to properly appraise all water company properties.

RESPONSE: We concur and will implement as time and budgetary constraints allow.

RECOMMENDATION 19: Assess regulated private water company real property at the lesser of current market value or factored base year value.

RESPONSE: We concur with the recommendation.

RECOMMENDATION 20: Apply rule 469 to sand and gravel properties.

RESPONSE: We concur and will comply.

RECOMMENDATION 21: Use the percent good factors in Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, when valuing older machinery and equipment.

RESPONSE: We will continue to use the CAA recommended tables as a guide in equipment valuation. We do not agree that the minimums are arbitrary nor that they "substantially overvalue most older equipment".

RECOMMENDATION 22: Assess manufactured homes at the lesser of factored base year value or current market value as required by section 5813.

RESPONSE: We concur. A new software module that is in development will aid in the implementation of this recommendation.